Canada
British Columbia

CROP INSURANCE

Financial Statements
For the Year Ended March 31, 1991
&
Selected Statistics
For the 1990 Crop Year

Agriculture Canada

Province of British Columbia
Ministry of Agriculture, Fisheries and Food

92-04171/

Canada
British Columbia

CROP INSURANCE

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Agriculture Canada
Honourable Bill McKnight, Minister

Province of British Columbia
Ministry of Agriculture, Fisheries and Food
Honourable Bill Barlee, Minister

British Columbia Cataloguing in Publication Data

Main entry under title:
Canada-British Columbia crop insurance financial statements and selected statistics for the year ended March 31 ... — 1987 —

Annual.
Cover title.
Co-published by British Columbia Ministry of Agriculture and Fisheries.
Includes auditor's report of the B.C. Crop Insurance Branch.
ISSN 0835-7706

1. Insurance, Agriculture - Crops - British Columbia - Statistics Periodicals. 2. British Columbia. Crop Insurance Branch - Appropriations and expenditures - Periodicals.
3. Agriculture and state - British Columbia - Statistics - Periodicals.
I. Canada. Agriculture Canada. II. British Columbia. Ministry of Agriculture and Fisheries.

HG9968.C36 368.1'22

Program Overview

The Objective

The program objective is to avoid the need for government ad hoc emergency assistance to farmers by minimizing the economic effects of diminished crop yields and losses caused by specified natural perils such as drought, hail, flood and frost. The voluntary crop insurance program makes basic crop loss protection available to farmers in the form of a production guarantee.

The Government of Canada and the Province of British Columbia provide financial assistance to the Canada-British Columbia Crop Insurance Program by each contributing 25 per cent of the total premium and 50 per cent of the administration costs. The Farm Income and Crop Insurance Branch of the B.C. Ministry of Agriculture, Fisheries and Food is responsible for the delivery and administration of the program.

Coverage

Crop insurance was first offered to British Columbia tree fruit producers in 1967 and to grain, grape and berry farmers in 1968. Since then, the program has grown significantly and has been expanded to seven plans comprising 28 insurable commodities.

Plan	Commodity
Berries	Strawberries, Raspberries, Blueberries and Cranberries
Forage	Forage
Grain	Wheat, Canola, Oats and Barley
Grapes	Grapes
Honey	Honey
Tree Fruit	Apples, Peaches, Apricots, Pears, Plums and Sweet and Sour Cherries
Vegetables	Beans, Peas, Carrots, Onions, Potatoes, Corn, Broccoli, Brussels Sprouts, Cabbage and Cauliflower

Extended coverage is available to protect against loss of certain perennial plants as well as the inability to seed grain due to excessive moisture. Hail and fire spot-loss coverage are also included in some plans.

Administration

The Canada-British Columbia Crop Insurance Plan is administered by the Farm Income and Crop Insurance Branch of the B.C. Ministry of Agriculture Fisheries and Food from 10 field offices in the province. The head office is located in Victoria with field offices in Abbotsford, Kelowna, Penticton, Oliver, Williams Lake, Fort St. John and Dawson Creek. Crop insurance representatives are available on a seasonal basis in Creston, Kamloops and Prince George.

Legislation

The Province, under the Insurance For Crops Act, offers multi-peril insurance to farmers of described crops in designated areas. The Federal Farm Income Protection Act allows the federal government to contribute to the provincial program. Federal Government cost-sharing is subject to the province adhering to standards set out in the federal-provincial agreement.

The Government of Canada provides financial assistance to the Canada-British Columbia Crop Insurance Program by contributing 25 per cent of the annual premium cost and 50 per cent of the cost of program delivery and administration. The federal government's contribution to this program totalled $3.6 million for the fiscal year 1990/91.

The Government of British Columbia contributes 50 per cent of administration costs and 25 per cent of annual premiums for a total of $3.6 million. In addition, the province contributed $1.85 million as the estimated cost of borrowing funds to finance the crop insurance debt, for the year.

Advisory Committees

Advisory committees, established for each plan, are composed of farmers growing one or more of the commodities in the plan. The purpose of the advisory committees is to provide an opportunity for farmer input into the design and development of the program and for the administrators to gain from their advice and views.

Appeals

The Contract of Insurance provides an insured farmer opportunity for arbitration of an unsatisfactory claim settlement. The appeals are heard by the Arbitration Tribunal consisting of the chairperson, Ms. Mary MacGregor, a representative appointed by the appellant, and a representative appointed by the appropriate Crop Insurance Advisory Committee.

Summary of 1990 Crop Year

The crop year for perennial crops was November 1, 1989 to October 31, 1990. Annual crops are covered from April 1, 1990 to October 31, 1990.

In the 1990 crop year, 2,223 farmers insured crops for coverage totalling $83.9 million. Coverage increased 2.5 per cent over 1989. Crop year premiums were $10.1 million and crop year indemnities were $10.4 million.

Premiums exceeded claims in the grain, forage, grape, honey and tree fruit plans. Claims exceeded premiums in the berry and vegetable plans.

In 1990, significant losses in berries and vegetables were primarily due to rain and excessive moisture during the spring of 1990. Hail storms in the Okanagan, during the growing season, also contributed to tree fruit claims.

The audited financial statements indicate loss expenditures as $15,182,391 for the 1990-1991 fiscal year. This figure includes claims of $10 million paid in the 1990 fiscal year plus losses for the 1991 perennial crop year (November 1, 1990 to March 31, 1991) estimated at $5 million. The estimated losses in tree fruit, berries and grapes are a result of severe winter temperatures. The winter losses will not be determined and paid

until after the end of the fiscal year, but estimates are included and deemed to have occurred for financial audit purposes.

Further details, on a crop year basis, are provided in the statistical summary.

Reorganization

The Farm Income and Crop Insurance Branch of the B.C. Ministry of Agriculture, Fisheries and Food is responsible for the administration and delivery of the Crop Insurance Program in B.C. The Branch budget was increased in the 1990/91 fiscal year to provide the Branch with the additional resources required to deliver crop insurance and other programs in adherence with its operating principles.

The Farm Income and Crop Insurance Branch underwent a major reorganization in 1990. Following the recommendations of a management consultant, the branch was organized into six functional areas as follows:

Claims
Administration
Field Operations
Marketing
Program Development
Underwriting

Personnel have been hired or assigned as managers responsible for each of these areas. In the short term, this has resulted in increased accountability and provided greater focus for branch staff activities. The long term objective is to increase the efficiency, the quality and the timeliness of service in program delivery which should result in positive fund performance.

Operating Principles

The crop insurance program must adhere to the following operating principles:

Actuarial Soundness	Premiums rates are calculated so that premiums collected match the expected cost of future losses.
Self-Sustaining Funds	Indemnity payments are financed from income, over time.
Financial Control	The standards stipulated by the Provincial Financial Administration Act are applied.
High Quality Service	Contractual obligations are delivered in a timely and professional manner.

The agricultural industry and agricultural markets experience constant and often rapid change. The Farm Income and Crop Insurance Branch continues to work with industry on the development and refinement of programs which will meet industry and government needs.

Future Direction

1. Consultants have been engaged to make recommendations as to the best organization and structure for the management and delivery of crop insurance. Their report is expected during the year and will form the basis of recommendations to government.

2. The Tripartite Gross Revenue Insurance Plan (GRIP) will be implemented, for grains and oilseeds, during the 1991 crop year. The existing Crop Insurance Program and a new Revenue Protection Plan (RRP) are the two components of GRIP which together offer grain and oilseed farmers revenue protection. In British Columbia, both components of GRIP will be administered and delivered by the Farm Income and Crop Insurance Branch.

Financial Statements

For the Year Ended March 31, 1991

Province of
British Columbia
Ministry of Agriculture, Fisheries
and Food

NOTE:

As you read through the auditors' report, please remember that the 1990 crop year statistics will differ from the audited financial year statistics due to their different reporting periods. See the accompanying notes to the financial statements.

Perennial Crop Year	—	November 1, 1989 — October 31, 1990
Annual Crop Year	—	April 1, 1990 — October 31, 1990
Fiscal Year	—	April 1, 1990 — March 31, 1991

KPMG Peat Marwick Thorne

Chartered Accountants

Third Floor, Royal Bank Building
707 Fort Street
Victoria, British Columbia, Canada
V8W 3G3

Telephone (604) 382-8251
Telefax (604) 382-0622

We have audited the balance sheet of the B.C. Ministry of Agriculture, Fisheries and Food - Crop Insurance Branch ("Branch") as at March 31, 1991 and the statement of revenue, expenditure and deficit for the year then ended. These financial statements are the responsibility of the Branch's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Branch as at March 31, 1991 and the results of its operations for the year then ended in accordance with the accounting principles described in note 2 to the financial statements.

Chartered Accountants

Victoria, Canada

July 25, 1991

Member Firm of
Klynveld Peat Marwick Goerdeler

Ministry of Agriculture, Fisheries and Food
CROP INSURANCE BRANCH

Balance Sheet

March 31, 1991, with comparative figures for 1990

	1991	1990
Assets		
Due from the Ministry of Finance and Corporate Relations	$ 86,278	$ 594,057
Premiums receivable:		
Due from insured growers	4,689,045	4,634,842
Premiums subsidy receivable from the Government of Canada and the Province of British Columbia	4,657,552	4,603,350
	$ 9,432,875	$ 9,832,249
Liabilities and Deficit		
Provision for losses incurred	$ 5,079,332	$ 530,000
Unearned premiums	5,274,502	5,199,565
Advances from the Ministry of Finance and Corporate Relations (note 3)	14,950,000	14,950,000
	25,303,834	20,679,565
Deficit, per accompanying statement	(15,870,959)	(10,847,316)
	$ 9,432,875	$ 9,832,249

See accompanying notes to financial statements.

Director

Ministry of Agriculture, Fisheries and Food
CROP INSURANCE BRANCH

Statement of Revenue, Expenditure and Deficit

Year ended March 31, 1991, with comparative figures for 1990

		1991	1990
Revenue:			
Crop insurance premiums:			
Premiums from insured growers	$	5,074,420	$ 4,984,059
Premiums subsidy from the Government of Canada and the Province of British Columbia		5,074,420	4,985,992
Interest on overdue accounts		9,908	7,848
		10,158,748	9,977,899
Expenditure:			
Losses incurred		15,182,391	4,546,267
Excess of revenue over expenditure (expenditure over revenue)		(5,023,643)	5,431,632
Deficit, beginning of year		10,847,316	16,278,948
Deficit, end of year	$	15,870,959	$10,847,316

See accompanying notes to financial statements.

Ministry of Agriculture, Fisheries and Food
CROP INSURANCE BRANCH

Notes to Financial Statements

Year ended March 31, 1991

The crop insurance scheme, introduced in 1967, was established to stabilize farm income by minimizing, at an individual level, the detrimental economic effects of crop losses due to uncontrollable natural perils. Commodities insured under the scheme are grouped into seven programs: tree fruit, grain, forage, grape, berry, vegetable and honey.

1. Authority:

The crop insurance scheme is administered by the Province of British Columbia ("the Province"), Ministry of Agriculture, Fisheries and Food under the authority of the Insurance for Crops Act, R.S.B.C. Chapter 202. The Act gives the Minister of Agriculture, Fisheries and Food the authority to enter into an agreement with Her Majesty the Queen in the Right of Canada ("Federal Government") on crop insurance.

2. Significant accounting policies:

(a) Basis of reporting:

The crop insurance scheme financial position and activities are reported in accordance with the Financial Administration Act and Regulations and Treasury Board Policies and Guidelines.

(b) Premiums subsidy from the Government of Canada and the Province of British Columbia:

Prior to April 1, 1990, the Crop Insurance Agreement between the Federal Government and the Province required the Federal Government to match crop insurance premiums received from insured growers.

After April 1, 1990, the Crop Insurance Agreement between the Federal Government and the Province requires the Province to match crop insurance premiums received from insured growers and requires the Federal Government to contribute to the Province an amount equal to 25% of all premiums paid in the Province and 50% of expenses incurred by the Province in administering the insurance scheme.

Premium subsidies from the Federal Government and the Province have been accrued as it is the opinion of management that premiums receivable from insured growers will be collected and will be eligible for Federal Government and Provincial contributions.

2. Significant accounting policies, continued:

(c) Premium revenue:

Premium revenue is included in income on a pro rata basis over the life of the insurance contracts.

Under generally accepted accounting principles for property and casualty insurance companies, in those instances where anticipated future claims and expenses exceed unearned premiums, a provision for premium deficiency is recorded. Due to the nature of operations of the crop insurance scheme, the Branch does not record a provision for premium deficiency.

(d) Provision for losses incurred:

Losses are charged to income as incurred. The provision for losses incurred represents the accumulation of estimates from reported losses and those incurred but not reported. The methods of determining such estimates and establishing resulting provisions are continually reviewed and updated, and adjustments resulting therefrom are included in income currently. Since the provision is necessarily based on estimates, the ultimate liability may be more or less than the provision.

(e) Allowance for doubtful accounts:

Credit is normally granted to insureds for the amount of premium, until the insured crop is harvested.

Since losses due to uncollectible accounts have been immaterial in the past no allowance for doubtful accounts has been recorded.

3. Advances from the Ministry of Finance and Corporate Relations:

The Province, in accordance with R.S.B.C. Chapter 202 of the Insurance for Crops Act, has advanced a total of $14,950,000 (1990 - $14,950,000) on an unsecured, interest-free basis to the Branch to fund the premium deficiency.

The Ministry of Finance and Corporate Relations Crop Insurance stabilization appropriation limit is $25,000,000.

Notes to Financial Statements, continued

Year ended March 31, 1991

4. Costs borne by the Province:

Sections 13.2 and 13.3 of the Crop Insurance Agreement between the Federal Government and the Province requires the Federal Government and the Province to share certain costs of administrating the crop insurance scheme. Under the Agreement, the Province is required to advance the Federal Government's share of these costs to the Branch and apply for reimbursement from the Federal Government. In addition, the above-mentioned Agreement states that the premium payable should be revised annually in such a manner as will keep the crop insurance scheme self-sustaining. Due to heavy losses in recent years and resulting financial stress to growers, premiums have not increased sufficiently to offset losses. The resulting deficit has been funded through advances from the Ministry of Finance and Corporate Relations (see note 3).

The following schedule discloses costs borne by the Province to pay administration expenses of the crop insurance scheme and the estimated cost to the Province of advancing monies on an interest-free basis to the Branch.

	1991	1990
Administration expenses:		
Personnel	$ 1,306,686	$ 1,097,600
Transportation and communication	185,619	154,600
Information	238,258	80,600
Professional and special services	177,604	132,500
Machinery and equipment	99,895	–
Cost of office accommodation	88,172	149,200
	2,096,234	1,614,500
Estimated cost of borrowing funds which have been advanced on an interest-free basis to the Branch	1,850,000	1,660,000
	$ 3,946,234	$ 3,274,500

Of the administration expenses shown above, $1,048,117 has or will be reimbursed by the Federal Government.

5. Statement of changes in financial position:

A statement of changes in financial position has not been prepared as it would provide no significant additional information.

6. Comparative figures:

Certain of the prior year's figures have been changed in order to provide a comparison with disclosure adopted in the current year.

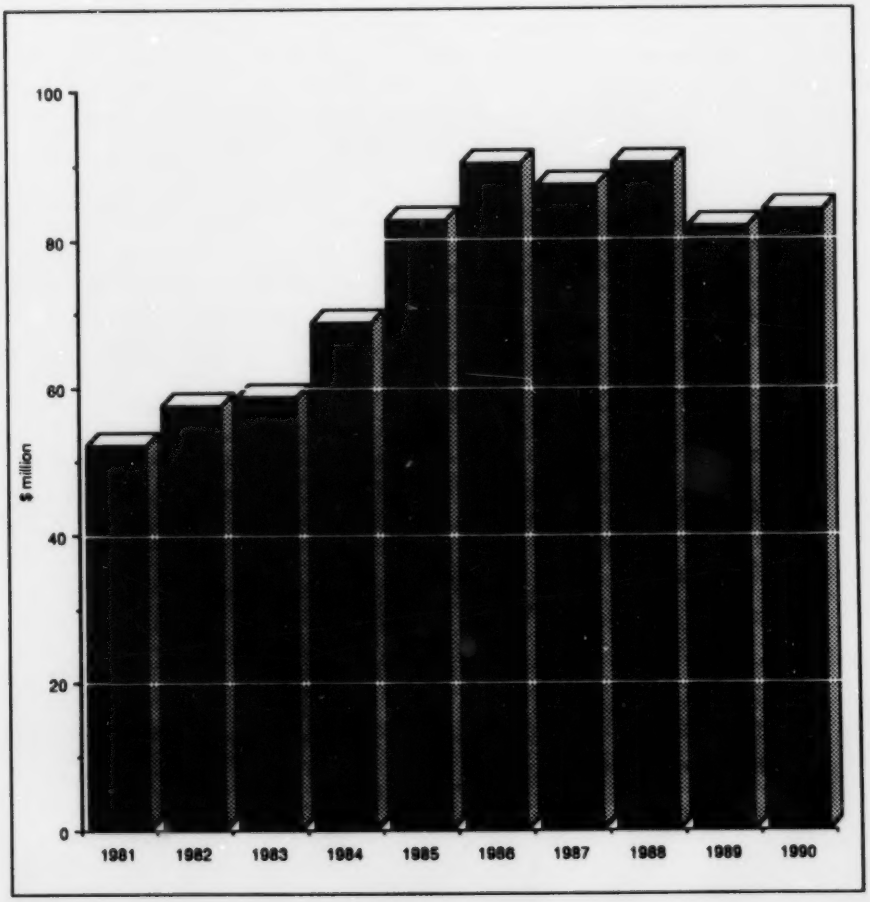
7. Subsequent event:

New Federal legislation, Bill C-98, was passed by the House of Commons and received Royal Assent April 11, 1991. Bill C-98 authorizes all Federal and Provincial Agreements, which provide protection for the income of agricultural producers including crop insurance.

Selected Statistics

For the 1990 Crop Year

Total Coverage: 1981 — 1990



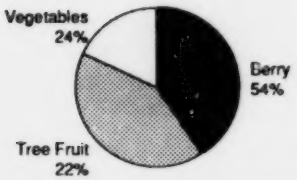
The crop insurance program is widely available within the province with total insurance coverage of $83.9 million in 1990.

Crop Insurance by Economic Development

Insurance/Region

Region 1

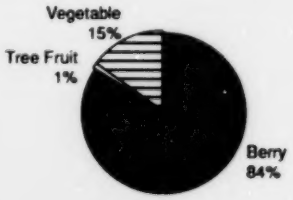
Vancouver Island/ Coast



$ 0.87 million

Region 2

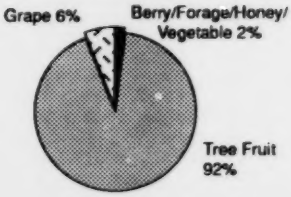
Lower Mainland/ Southwest



$ 18.27 million

Region 3

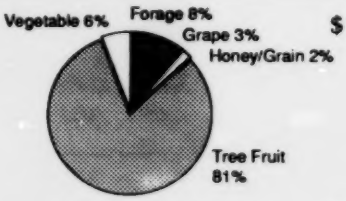
Okanagan



$ 54.33 million

Region 4

Kootenay



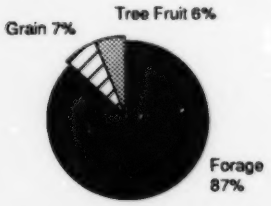
$ 2.50 million

Crop Insurance by Economic Development

Insurance/Region

Region 5

Cariboo



$1.21 million

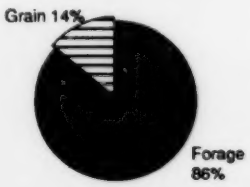
Region 6

North Coast

No contracts have been underwritten in Region 6 at the present time.

Region 7

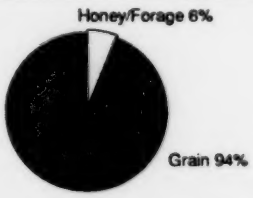
Nechako



$0.09 million

Region 8

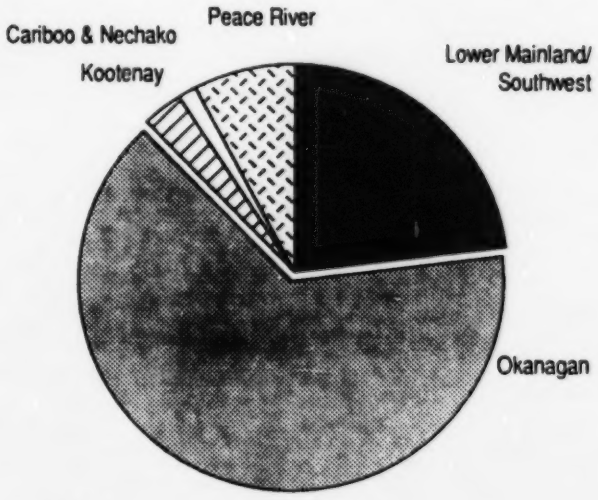
Peace River



$6.66 million

Total Coverage by Economic Development Region

Total insurance coverage — **$83.9 million**

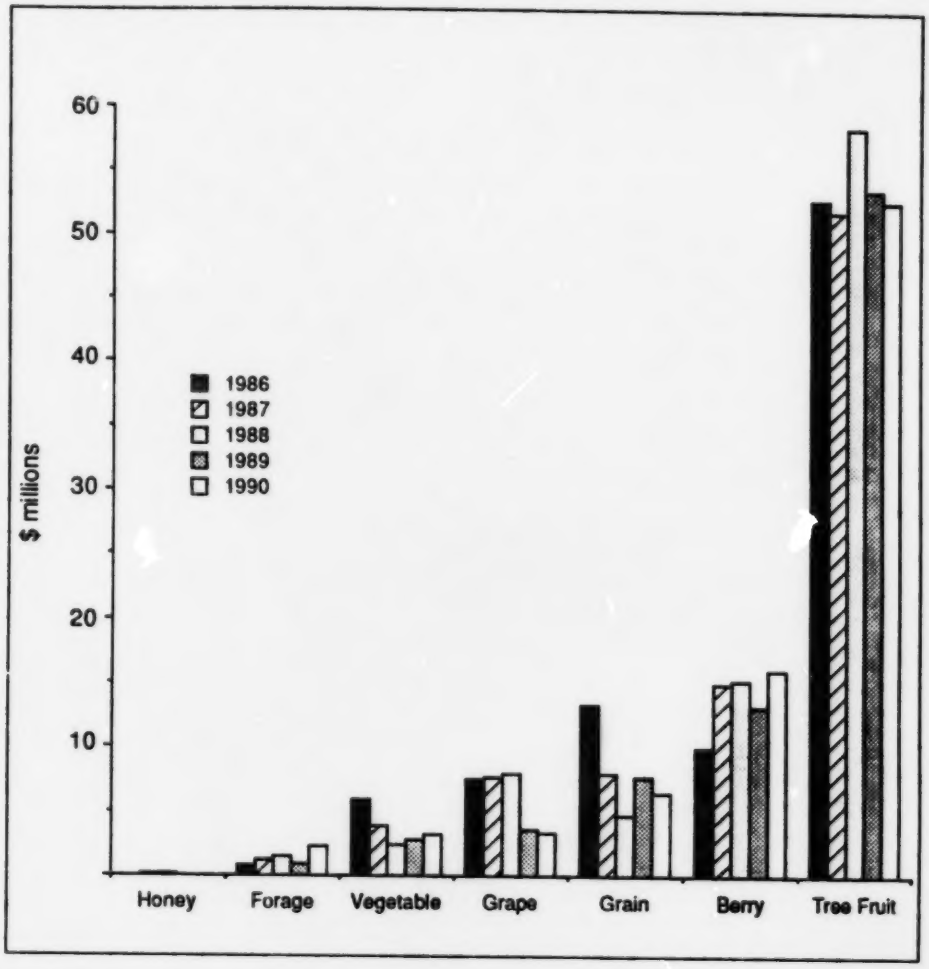


1990

	% of Total Coverage
Region 1 - Vancouver Island/Coast	1.1%
Region 2 - Lower Mainland/Southwest	21.8%
Region 3 - Okanagan	64.7%
Region 4 - Kootenay	3.0%
Region 5 - Cariboo	1.4%
Region 6 - North Coast	0%
Region 7 - Nechako	0.1%
Region 8 - Peace River	7.9%

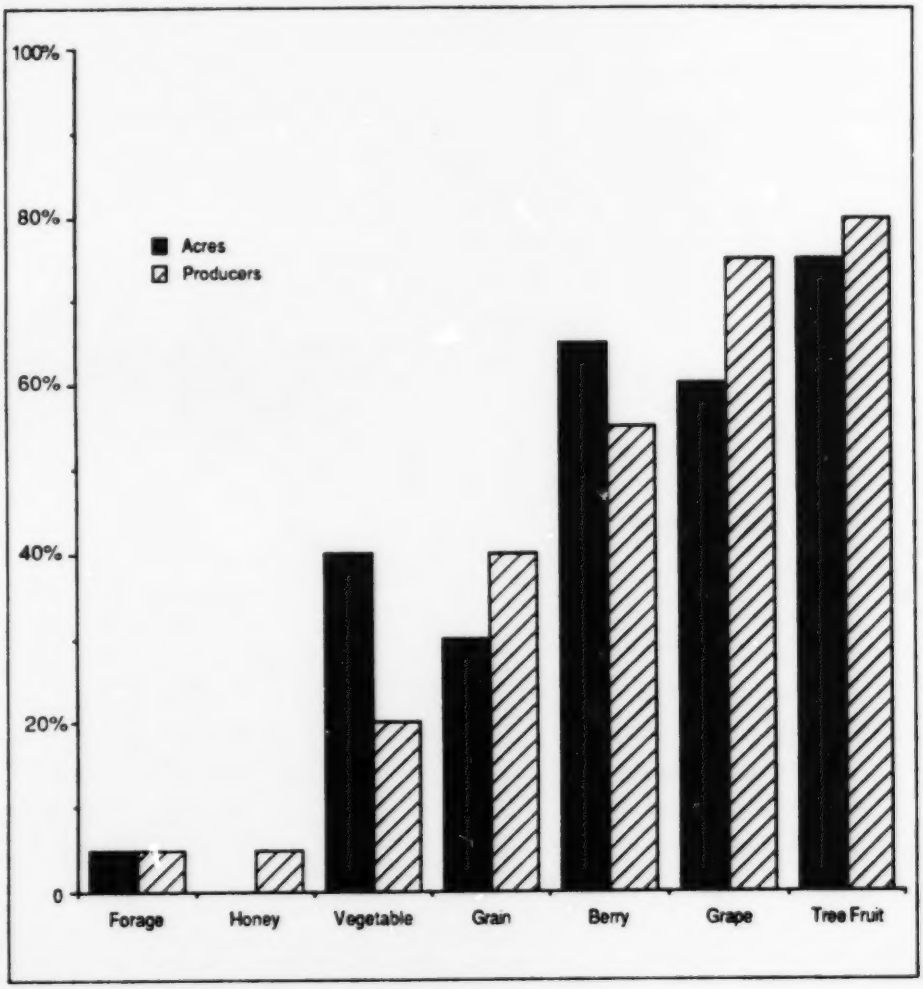
Variation among economic development regions is determined by agricultural capability and participation level in each region.

Total Coverage by Plan 1985 - 1989



Total coverage in each plan will vary according to the size of the industry in B.C., market participation and commodity prices.

Estimated Market Share

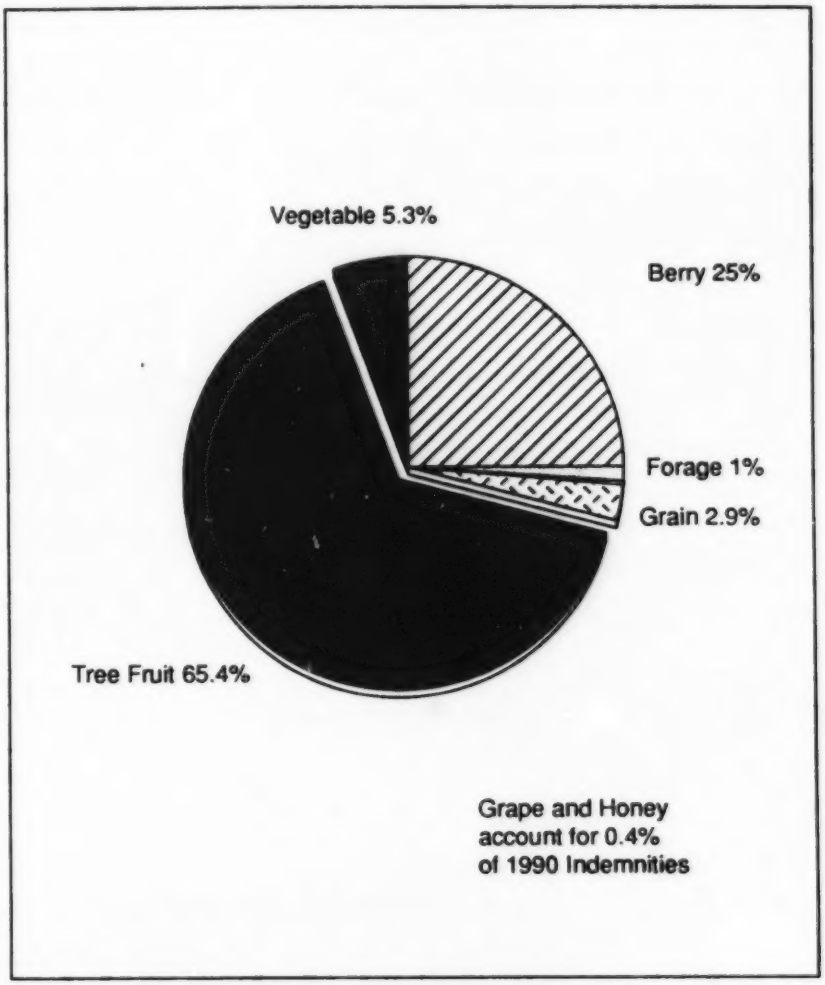


Crop Insurance marketing activities will be directed towards retaining or increasing market share in all plans.

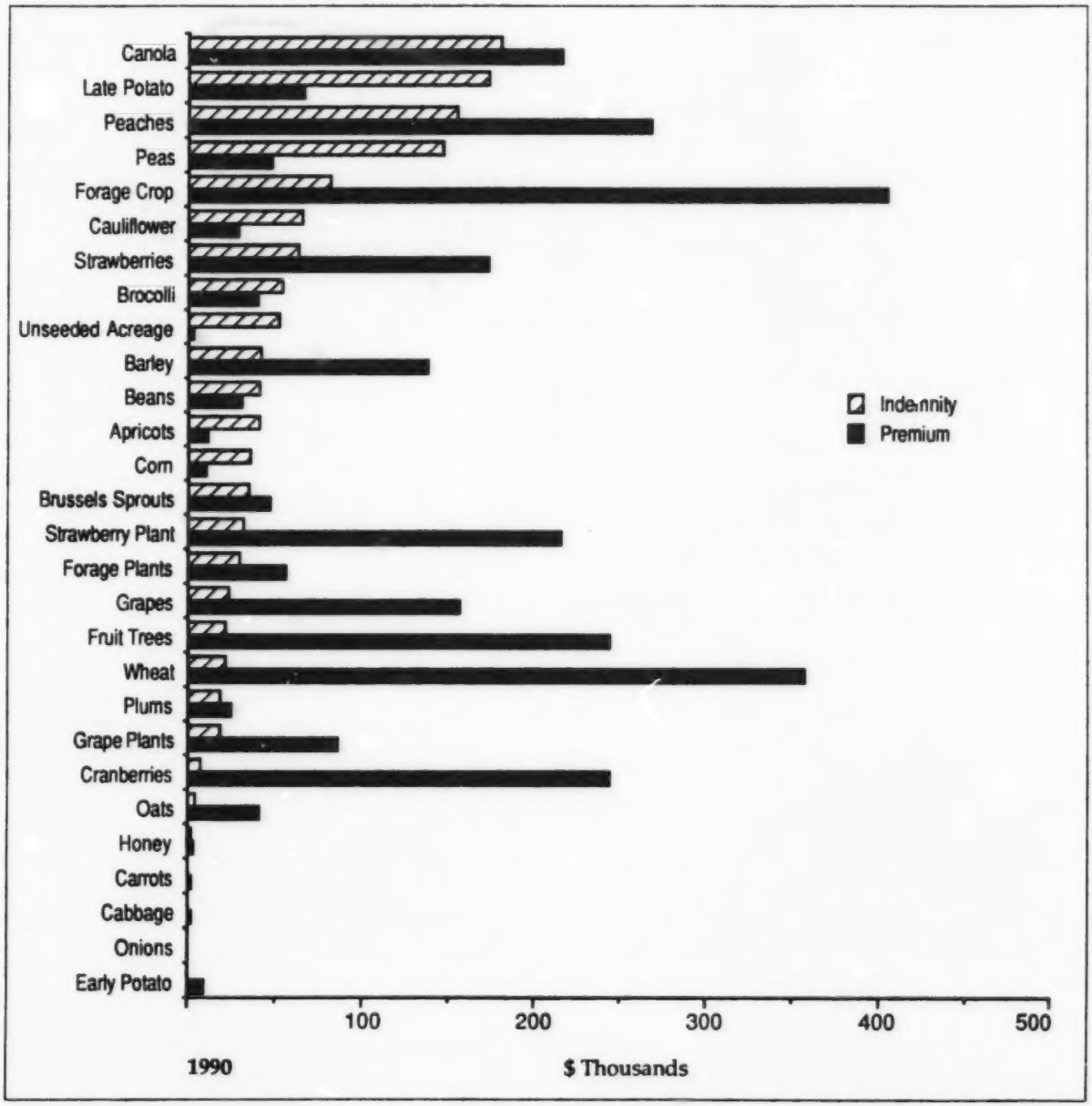
Indemnities by Plan 1990

The crop insurance contract specifies for each plan the perils for which coverage is offered. Total indemnities were $10.4 million in the 1990 Crop Year.

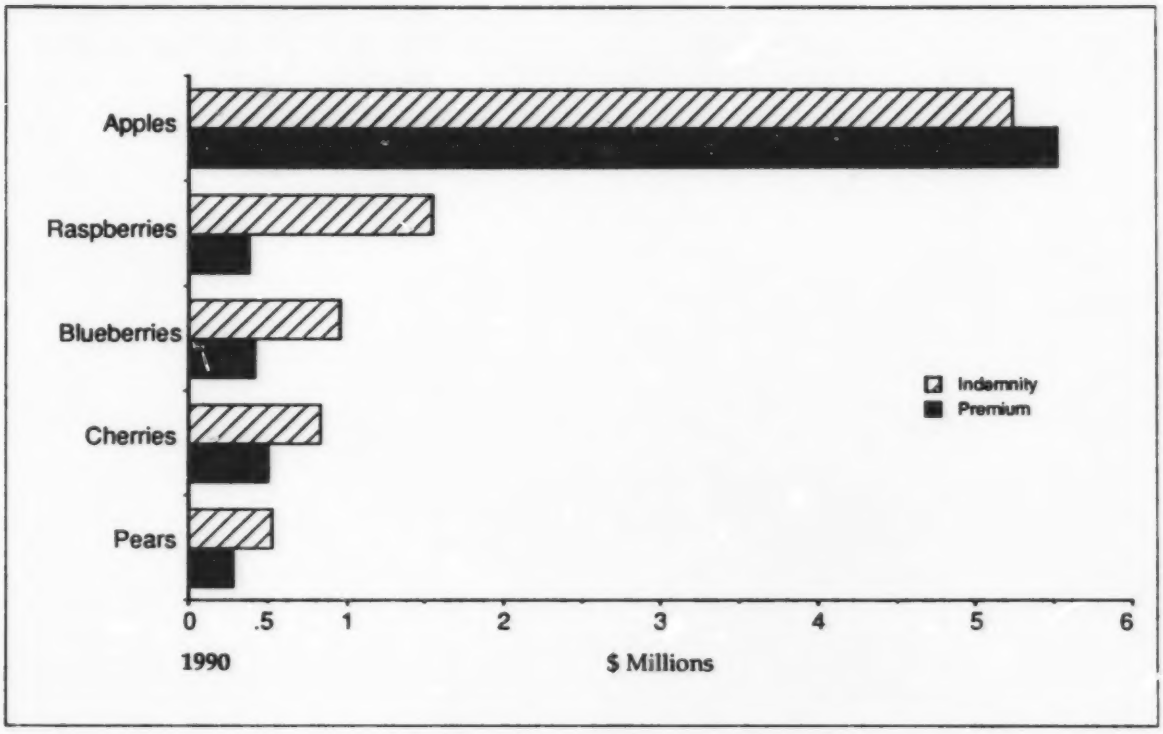
Low winter temperatures and spring rains were the primary causes of loss in the Fraser Valley. Hail storms in the Okanagan decreased crop quality in the tree fruit sector.



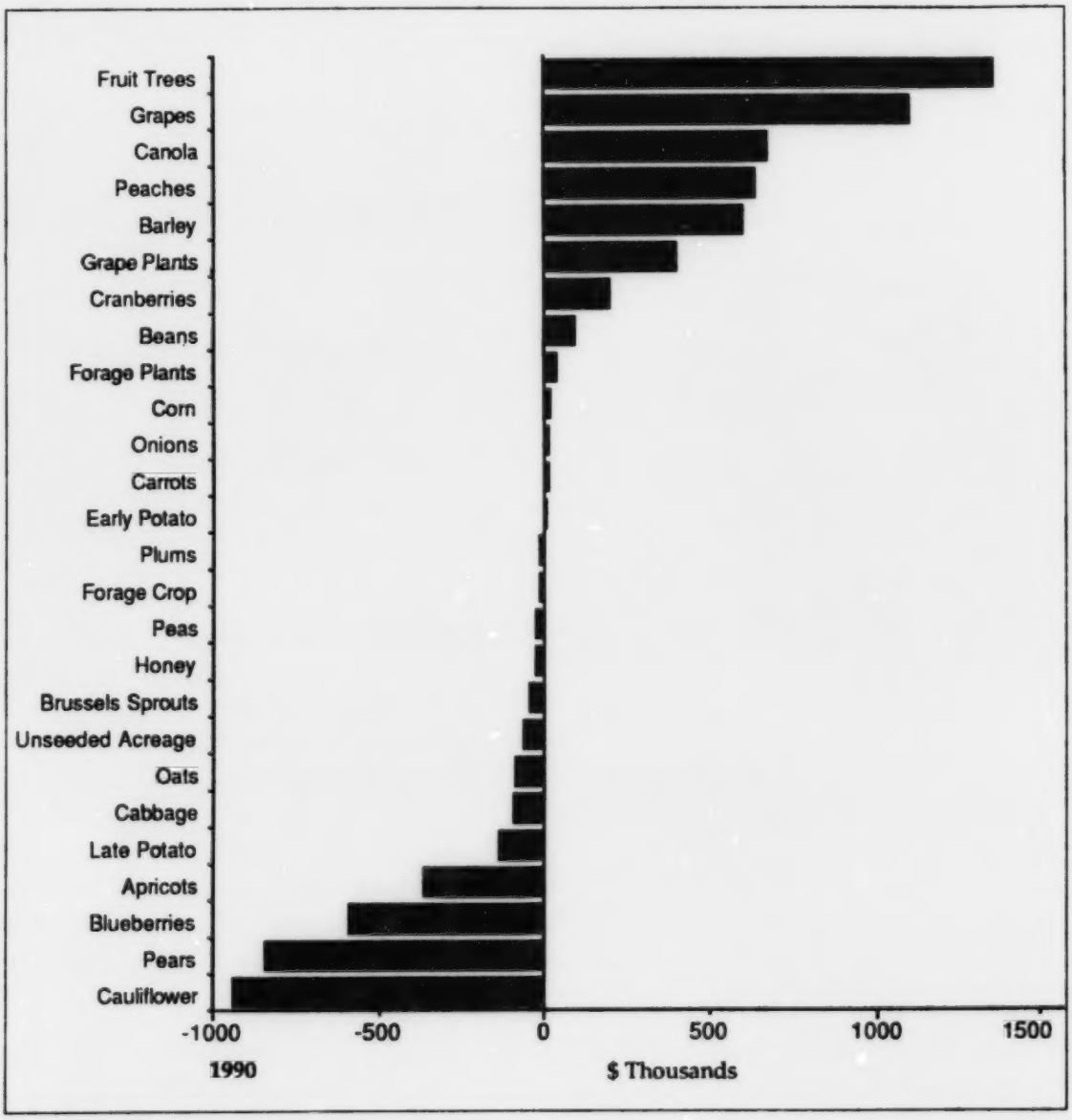
1990 Comparison of Premiums and Indemnities on a Cash Basis for Crops with Indemnities Less than $500,000



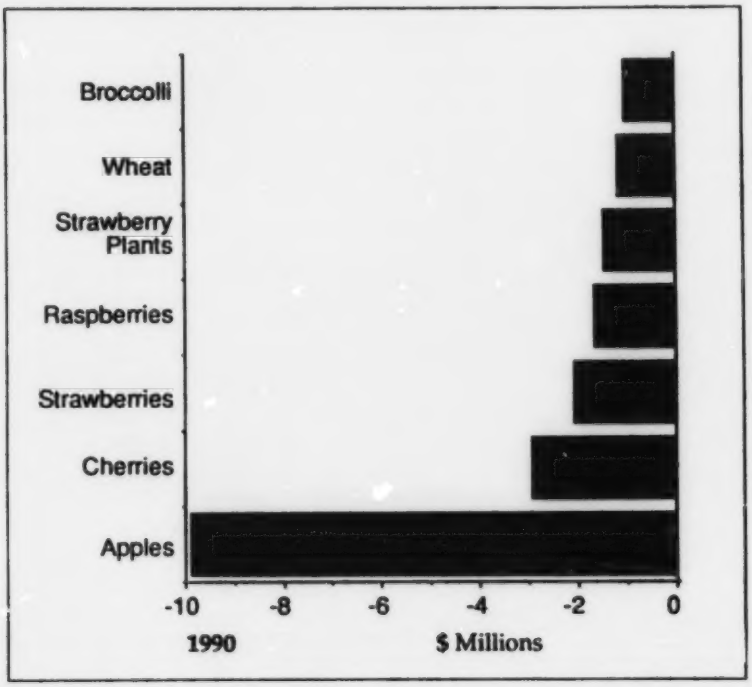
1990 Comparison of Premiums and Indemnities on a Cash Basis for Crops with Indemnities Greater than $500,000



Cumulative Fund Balances for Crops

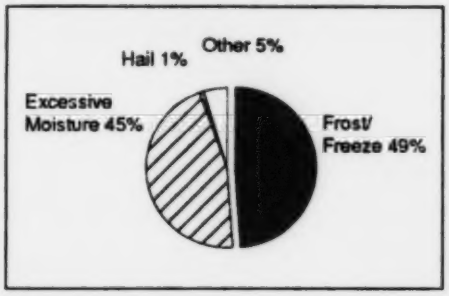


Cumulative Fund Balances for Crops with Deficit Fund Balances Exceeding $1 Million

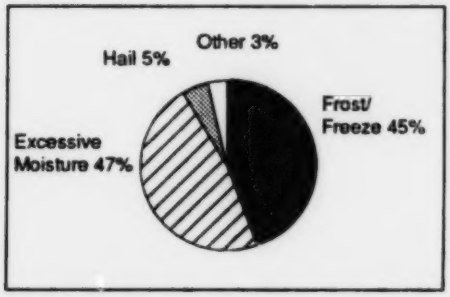


Causes of Loss
1990 Crop Year
(% of Plan Indemnity)

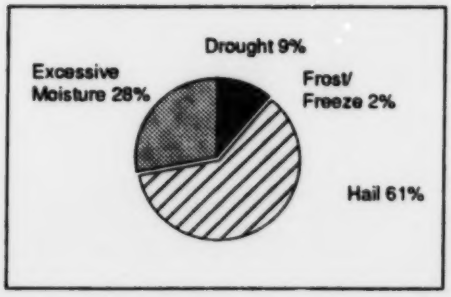
Berry Plan



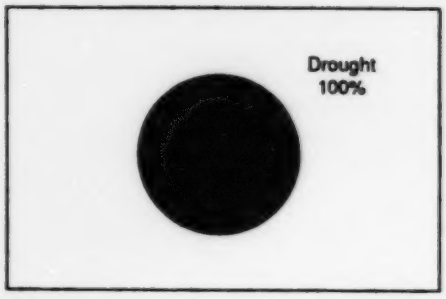
Grape Plan



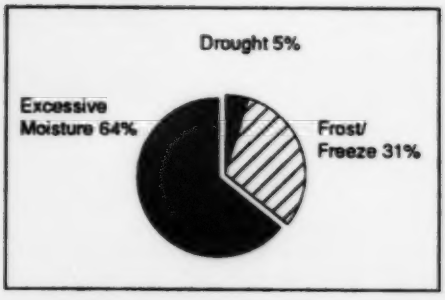
Grain Plan



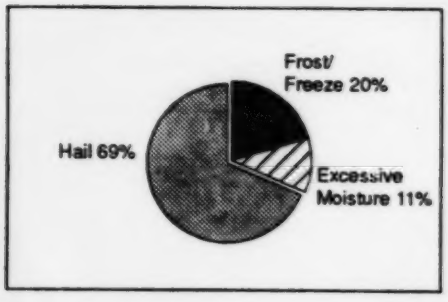
Honey Plan



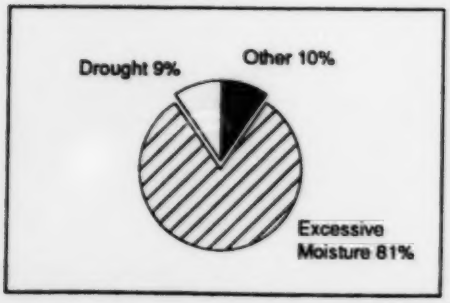
Forage Plan



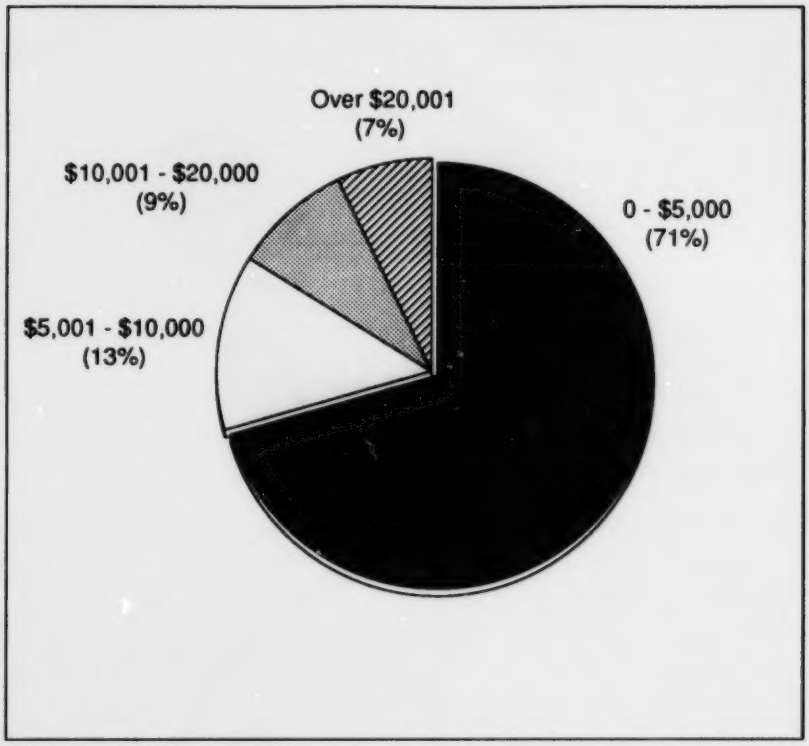
Tree Fruit Plan



Vegetable Plan

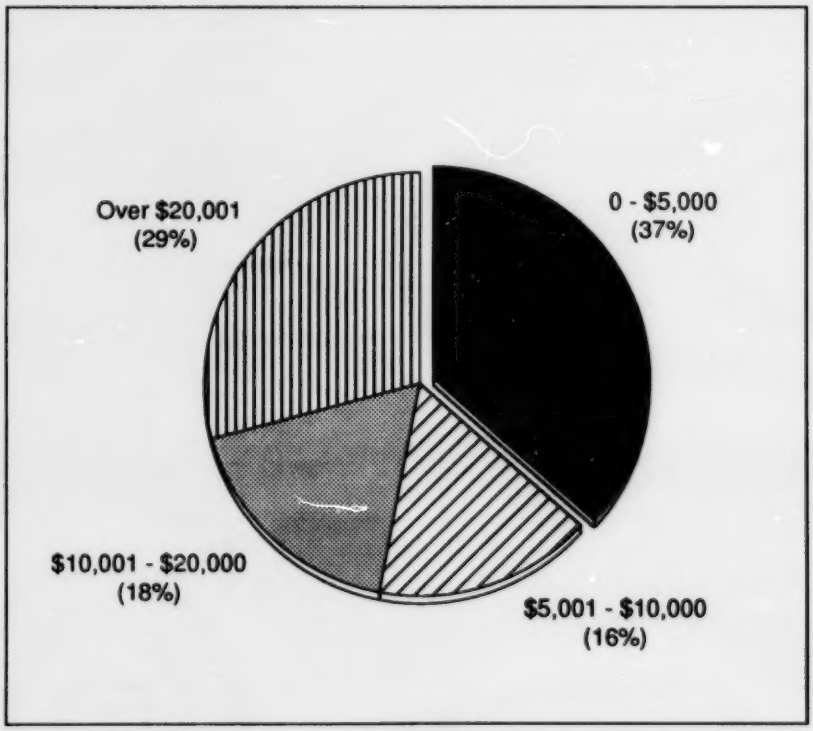


Claim Distribution



Claims range in size from very small to a significant dollar value, depending on the extent of losses and the size of the commodity contract. Twenty-eight per cent of claims were less than $1,000.

Amount of Insurance per Commodity Contract

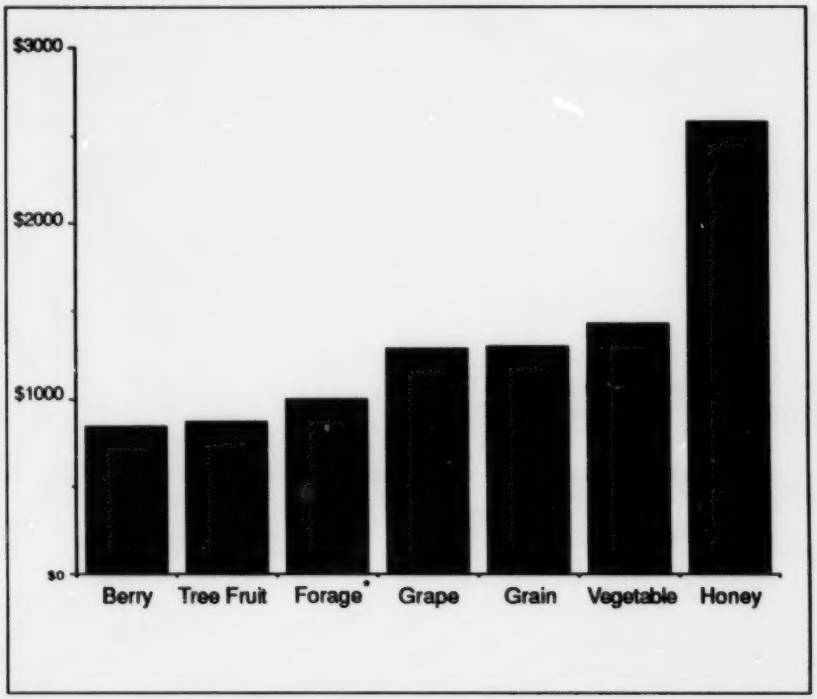


The size of the farm and the number of crops grown per farm determines the insurance coverage per commodity contract.

Administration Costs

The province of British Columbia, and the federal government, fund the administration of the Crop Insurance Program. Administration costs of $2.1 million represent direct Farm Income and Crop Insurance Branch program delivery costs but do not include other government branch and ministry costs or the annual estimated $1.85 million provincial cost of borrowing funds for the cumulative crop insurance debt.

per Insured



The number of contracts, the type of crops grown and the geographical dispersion of the farms within a plan affect the administrative costs.

by Plan

(per cent of total $2.1 million)